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Highlights

for the years ended March 31

	1985	1984	1983
FINANCIAL		*(in millions)*	
Revenues	**$ 1,953**	$1,613	$1,528
Income before extraordinary item	**$ 3**	$ 51	$ 58
Additions to fixed assets in service	**$ 2,185**	$ 480	$ 374
Total assets	**$10,579**	$9,593	$8,910
OPERATING			
Electricity sold (kW·h in millions)			
Domestic	**31 502**	29 069	28 640
Export surplus	**6 378**	2 834	3 623
Gas sold (terajoules)	**99 635**	89 525	85 969
Freight carried (tonnes in thousands)	**1 837**	2 005	1 784

Business of B.C. Hydro

British Columbia Hydro and Power Authority, a provincial Crown corporation, is the third largest electric utility in Canada and the largest distributor of natural gas in British Columbia. Its Board of Directors, appointed by the Lieutenant Governor in Council, is responsible for management of the corporation.

B.C. Hydro generates, transmits and distributes electricity to more than one million customers in a service area which contains more than 90% of British Columbia's population. Most of the electricity is generated by hydroelectric plants which are linked to customers by an interconnected system of transmission lines. Remote communities not connected to this integrated system are served by small local generating plants.

Hydro distributes natural gas in Greater Vancouver and the Fraser Valley and propane-air gas in Greater Victoria.

Hydro also operates a railway offering local and terminal freight service in Greater Vancouver and the Fraser Valley.

Hydro's electric and gas service are subject to regulation by the British Columbia Utilities Commission.

Report of the Directors

The year ended March 31, 1985, was one of major achievements for B.C. Hydro, for despite the large drop in the value of the Canadian dollar, the unfavourable intertie policy of the Bonneville Power Administration and the bringing into service of more than $2 billion of new plant, the corporation had net income of $3 million.

Total revenues for the year were $1,953 million, 21% more than the former high of $1,613 million set in 1983-84.

Revenues from sales of electricity were $1,513 million, up 23% from the previous year, attributable to an increase of 8% in the consumption of kilowatt-hours of electricity by British Columbia customers, a higher level of electric export surplus sales and an interim electric rate increase of 6.5% effective in April 1984.

Gas sales revenues rose by 15% to $415 million, chiefly because of increased consumption by all categories of customers. Colder weather, compared with the previous year, was the main reason for higher residential and general gas consumption.

Off-oil conversions to gas and electricity peaked towards the end of the fiscal year before federal government incentives were withdrawn. Although quantities are still small, considerable progress was made in the program to increase sales of natural gas as a transportation fuel.

During the year all four units of the Revelstoke hydroelectric plant were put into service. Although much of the plant's capability will not be required by British Columbians for a few years, its surplus has enabled Hydro to reach record levels of export electricity sales. During the month of March 1985 alone, exports of surplus electricity reached the highest one-month total in Hydro's history, resulting in revenues of $57 million and bringing its total exports for the year to $182 million.

The Revelstoke plant will be a key asset for Hydro and for British Columbia in providing low-cost energy for at least the next half century.

However, having the Revelstoke plant in operation for part of the year and operating the first circuit of the Cheekye-Dunsmuir transmission line for the first full year increased finance charges by over $175 million, while the decline in the value of the Canadian dollar vis-a-vis the United States dollar increased finance charges by approximately $70 million.

Based on current load forecasts the completion of the Revelstoke plant means that Hydro will not need to add new generation facilities until the mid-1990s. Consequently, the corporate emphasis has changed from intensive concentration on building new plant to almost total dedication to maximizing efficiency of the day-to-day operations.

A new corporate structure is being developed, improving Hydro's ability to meet its objective of supplying electricity and gas to customers at the least cost and in the most efficient manner commensurate with appropriate service levels and predictable energy demand. Hydro also is responding to economic conditions by pursuing a variety of marketing initiatives while continuing to minimize operating expenses.

The Board is confident that these various measures will lead to reductions in costs.

The addition of the Revelstoke plant, which provided approximately 12 000 man-years of direct employment, and the Cathedral Square Substation in downtown Vancouver were the major factors in increasing Hydro's total fixed assets in service by more than 25 per cent or $2.2 billion during the year, maintaining Hydro's position as the fifth-largest industrial corporation in Canada with total assets of $10.6 billion.

The Directors would like to acknowledge the contributions made by Robert W. Bonner, Chairman; Eric H. Martin, Executive Vice-President, Operations, and William D. Mitchell, Vice-President, General Counsel and Secretary, who left the service of the Authority during the year.

On behalf of the Board

Chester A. Johnson
Chairman

Review of Operations

The year under review was marked by an increase in domestic sales of electricity and gas and by revenues of $182 million from export sales of surplus electricity. It is expected that, because of declining electric load growth forecasts, no new generating resources will be required for at least a decade. Consequently, studies of future projects have been suspended. The work force was reduced by more than 1000 during the year.

In a continuing program to reduce costs, a number of Hydro offices were moved, consolidated or closed during the year. This included the consolidation of the North Coast and Central Interior regional operations into a single Northern division.

Electricity

Total revenues from electric service increased by 23% or $283 million to $1,513 million because of increased consumption and a 6.5% interim electric rate increase effective April 15, 1984.

There was an increase of 18 172 electricity customers during the year, bringing the total number served at March 31, 1985, to 1 141 905.

In September 1984, Bonneville Power Administration limited access by extra-regional utilities to its portion of the Pacific Northwest-Southwest transmission intertie. This new policy restricted Hydro's exports of electricity to California.

Despite the intertie policy, which did not take effect until the middle of the fiscal year, export sales were $182 million during the year, the second-highest annual export revenue in Hydro's history. During March 1985, Hydro set three export sales records: most revenues in a month, $57 million; largest one-week total, $19 million between March 18 and 24, and highest single-day sales, $3 million on March 29.

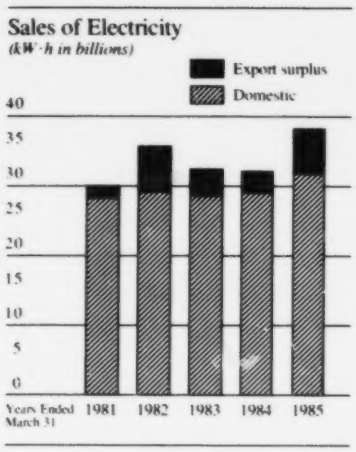
In August 1984, the National Energy Board issued three export licences to Hydro for periods from four to six years starting in September and October of 1984. They complement an energy removal certificate issued to Hydro in March 1984 by the provincial Minister of Energy, Mines and Petroleum Resources. The certificate covers exports of electricity for a six-year period beginning October 1984.

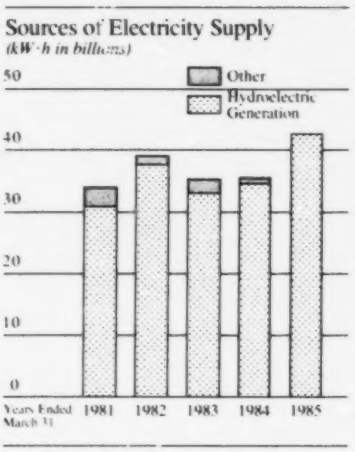
The Revelstoke hydroelectric plant, 5 km north of Revelstoke on the Columbia River, was brought into full service during the past year, with four 460 750 kW generating units operating by year-end.

Runoff into Hydro's reservoirs was close to average, with inflows below normal in the Columbia River and above normal in the Peace River.

More than 375 000 people visited Hydro reservoir recreational areas, which were enhanced by new safety measures at a number of sites and new trail-building programs at Buntzen, Hayward and Seton lakes.

Significant new operating loads connected during the year included power supply stations for the Advanced Light Rapid Transit system in the Lower Mainland, while substation demand increased for the Bulimoose and Quintette mines and the community of Tumbler Ridge at the northeast coal development.





On Vancouver Island 98% of the 3300 new residential units connected during the year installed electric space heating.

The logging and mining community of Zeballos on the west coast of Vancouver Island was added to the integrated system.

There were 132 distribution extensions approved during the year under Hydro's Rural Electrification Assistance program, including large projects

in the Bella Coola, Fort St. John, Quesnel, Sechelt and Stewart districts, while other major projects were completed in the Burns Lake, Fort St. John and Williams Lake areas. Funding for some of the projects was shared by the federal Department of Indian Affairs.

A second 117 km, 500 kV circuit between Ashton Creek Substation near Vernon and Nicola Substation near Merritt was energized, completing the 500 kV transmission system associated with the Revelstoke plant.

The underwater portion of the second circuit for the 500 kV alternating current transmission connection between the mainland and Vancouver Island was completed.

A 146 km, 500 kV transmission line from Kelly Lake Substation near Clinton to Nicola Substation, which strengthens the 500 kV grid by interconnecting transmission from hydroelectric projects on the Peace and Columbia rivers, came into operation.

Foundations were installed and towers erected for a 108 km, 500 kV transmission line between Cranbrook and the Alberta border. The line, scheduled to be placed in operation during the 1985-86 fiscal year, will make possible emergency support and energy exchange benefits to both Alberta and B.C.

A net total of 295 km of transmission lines and 1058 km of distribution lines was added to the electric system, and substation capacities were increased to provide adequate supply for customers' growing requirements.

Work continued on the second phase of the Cathedral Square underground substation in downtown Vancouver. Completion of this stage, scheduled for fall 1985, will double the amount of customer load the substation can serve. A new substation was completed in September 1984 to serve load growth in the Abbotsford area.

Rehabilitation of Coquitlam Dam was completed and design begun for remedial work on Cheakamus, Stave Falls and Sugar Lake dams and the Alouette Dam spillway as part of Hydro's continuing dam safety program. Monitoring of potential slide activity at various reservoirs continued.

A high-power laboratory was added to Hydro's Surrey research centre, making it possible to test electrical distribution system equipment under short-circuit conditions.

Total requirements for electricity and sources of supply during the past year were:

	kW·h in millions	% of total
Requirements		
Domestic	31 502	74.6
Export surplus	6 378	15.1
Line loss and system use	4 335	10.3
	42 215	100.0
Sources of supply		
Hydroelectric generation		
Gordon M. Shrum	15 185	36.0
Mica	6 510	15.4
Revelstoke	6 365	15.1
Peace Canyon	3 729	8.8
Kootenay Canal	2 859	6.8
Seven Mile	2 681	6.3
Other	6 190	14.7
Thermal generation		
Burrard	3	—
Other	149	0.3
Purchases and other transactions	(1 456)	(3.4)
	42 215	100.0

Total generating nameplate capacity of Hydro's plants at March 31, 1985, following retirement of the 100 000 kW Port Mann gas turbine generating station in the Lower Mainland, was as follows:

	Generating nameplate capacity (kW in thousands)
Hydroelectric plants	
Gordon M. Shrum	2 416
Revelstoke	1 843
Mica	1 736
Peace Canyon	700
Seven Mile	608
Kootenay Canal	529
Bridge River	428
Other	1 072
Total hydroelectric	9 332
Thermal plants	
Burrard	912
Gas turbine (2 plants)	146
Diesel	113
Total thermal	1 171
Total generating capacity	10 503

On November 9, 1984, Hydro applied to the B.C. Utilities Commission to confirm an interim electric rate increase which took effect April 15, 1984, and to grant a further 6.5% electric rate increase effective April 1, 1985.

(On May 13, 1985, Hydro sought to amend the application by substituting a 3.75% increase for 1985 and asking to have it granted on an interim basis. On May 31, 1985, the Commission approved this interim increase effective June 13, 1985. Both interim increases are subject to refund, with interest, if so ordered by the Commission.)

In December 1984, the provincial government announced relief from an increase in water rental charges which would have necessitated further increases in electric rates. In March 1985, the government announced that water rentals would be frozen at the current rates for the next five years.

Hydro has offered incentive rates to major industrial customers in B.C. since July 1983 to encourage consumption of a temporary surplus of electricity. The incentive program applies to incremental energy for increased plant output for sales of B.C. products to new markets. About $8 million in revenue resulted from this program during the year.

On February 26, 1985, Hydro obtained approval to offer discount rates to industry for electricity used to off-load oil-fired turbo-generators. Response by industry was substantial and immediate as the program requires little or no modification to equipment. Hydro anticipates annual sales of 650 million kW·h and revenues of $8.45 million from this new marketing program, which complements provincial and federal government off-oil programs.

On March 15, 1985, the provincial government introduced the Industrial Electricity Rate Discount Act, to aid industrial expansion in B.C. by permitting the sale of surplus electricity at discounted rates to qualifying industrial customers.

Gas

Gas sales volume increased 11% over the previous year to a new high of 99 635 terajoules, surpassing the former one-year record set in 1981-82. Total revenues from gas services were $415 million, up 15% from the previous year.

The total number of gas customers at March 31, 1985, was 362 255, an increase of 3% from the previous year. Of new natural gas customers, 60% converted from oil.

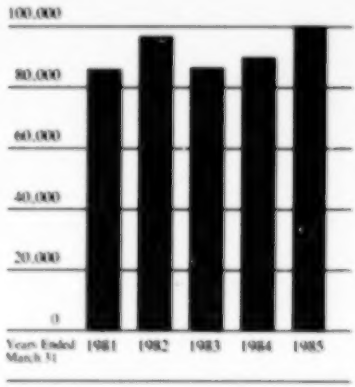
A larger than usual number of conversions to gas from oil occurred because of increased marketing efforts by Hydro, combined with the termination of the Canada Oil Substitution Program (COSP) effective March 31, 1985. During the first three months of calendar 1985, conversion installations more than tripled the estimated figure as customers took advantage of the final federal COSP grants.

In addition to administering government grant programs, Hydro offers two financing programs of its own, one of which helps homeowners install insulation, multiple glazing or storm windows, and the other for converting vehicles to use natural gas as a fuel. The first program was instituted in 1977, the second came into effect during the past year.

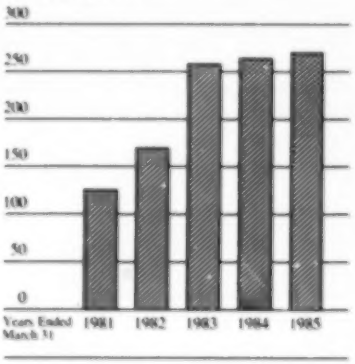
Hydro continued to develop opportunities to market natural gas as a transportation fuel. By March 31, 1985, there were 1134 natural gas-powered vehicles in Hydro's natural gas service area, up from 431 a year earlier.

Use of a liquefied natural gas storage plant at Tilbury Island in Delta and withdrawal of gas from an underground storage project near Chehalis, Washington, reduced peak requirements and minimized gas purchases.

Sales of Gas
(terajoules)



Average cost of Natural Gas Purchased for Resale
(cents per gigajoule)



Use of polyethylene plastic pipe for new gas services and mains continued to result in significant cost savings.

Hydro added 221 km of mains to the natural gas distribution system during the year, compared with 115 km the previous year.

The cost of natural gas purchased by Hydro was increased on August 1, 1984, and as a consequence the B.C. Utilities Commission approved a pass-through rate increase of 2.2% for Lower Mainland gas service. No other increases were sought in gas prices.

Following public hearings, the Commission in June 1984 recommended award of an energy project certificate to Hydro to build and operate an underwater natural gas transmission pipeline from the Lower Mainland to Vancouver Island. The provincial government accepted the recommendation on July 30, 1984. The project awaits resolution of negotiations on funding between the provincial and federal governments. Further approvals would be required for associated transmission and distribution facilities on the Island.

Railway

Volume of rail freight carried was 1837 thousand tonnes, reduced from 2005 thousand tonnes the previous year mainly because of decreased rail traffic between Canada and the U.S.

During the year Hydro railway track was relocated to permit the Advanced Light Rapid Transit system to share right-of-way in the Lower Mainland and to allow road access to the new bridge across the Fraser River at Annacis Island.

Public Communication

Programs were maintained to provide information to the public about customer service, safety, energy education and Hydro operations. The energy education program, widely used in B.C. schools in conjunction with existing curricula, is operated with the assistance of volunteer teacher-advisors.

Hydro continued to conduct informal seminars with community and business representatives to explore corporate planning alternatives and policy issues. Purpose of the seminars, co-sponsored by community colleges, is to improve communications with the public and help Hydro make informed and responsive decisions. During the past year, seminars were held in Abbotsford, Kamloops, Surrey, Terrace, Victoria and Williams Lake.

Employees

Hydro had 7149 employees at March 31, 1985, compared with 8205 on March 31, 1984. Due to declining work programs, there has been a reduction of more than 3000 employees since July 1982.

To assist displaced employees in securing new positions, Hydro has operated a relocation centre since October 1982. During the past year, Hydro approached several hundred employers throughout North America and invited them to consider Hydro's surplus talent when developing recruitment plans.

Current agreements with all Hydro unions extend until March 31, 1986, while the agreement with the association representing supervisory, professional and confidential employees expires November 30, 1986. None of these agreements requires general wage increases in the 1985-86 fiscal year.

Financial Report

Financial Review

B.C. Hydro is the fifth-largest industrial corporation in Canada based on assets as reported by the Financial Post 500, Summer, 1985 and updated to include results for B.C. Hydro for the year ended March 31, 1985.

Canadian Companies Ranked by Assets

	Assets	Revenues	Net Income (Loss)	Employees
		(in millions)		
1. Ontario Hydro	$27,301	$ 4,212	$575	29 613
2. Hydro-Quebec	27,129	4,173	301	18 560
3. Canadian Pacific Limited	18,796	14,635	377	120 000
4. Bell Canada Enterprises Inc.	17,486	10,579	940	108 100
5. B.C. Hydro (March 1985)	10,579	1,953	3	7 149
6. Petro-Canada	9,055	4,881	252	6 697
7. Alcan Aluminium Limited*	8,842	7,079	280	70 000
8. Imperial Oil Limited	8,781	8,448	533	14 331
9. Dome Petroleum Limited	7,916	2,448	(197)	6 000
10. Canada Development Corp.	7,649	4,181	81	18 000

** Alcan Aluminium Limited dollar figures are converted from U.S. dollars.*

Regulation and Financial Objectives

Since 1980, B.C. Hydro's electric and gas services, including rates, have been regulated by the British Columbia Utilities Commission (the "Commission"), subject to any general or special direction of the Lieutenant Governor in Council with respect to the exercise of its powers.

A special direction issued in March 1984 stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 on the gas service and improve its interest coverage ratio for the electric service with reasonable consistency so as to achieve an interest coverage ratio of 1.3:1 by fiscal 1991. The special direction also stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 after fiscal 1991 for the electric and gas services so as to achieve and maintain a debt/equity ratio of 80:20.

Ratios for the past five years were as follows:

As calculated under B.C. Hydro's historical method —

	Years Ended March 31				
	1985	1984	1983	1982	1981
Interest Coverage Ratio					
—Electric	**.98:1**	1.05:1	1.07:1	1.15:1	1.21:1
—Gas	**1.45:1**	1.33:1	1.07:1	1.29:1	1.03:1
—Total B.C. Hydro	**1.00:1**	1.06:1	1.07:1	1.17:1	1.21:1
Debt/Equity Ratio	**94:6**	93:7	93:7	93:7	93:7

As calculated under the Commission's method for regulatory purposes —

	Years Ended March 31				
	1985	1984	1983	1982	1981
Interest Coverage Ratio					
—Electric	**.97:1**	1.05:1	1.09:1	1.20:1	1.23:1
—Gas	**1.52:1**	1.36:1	1.09:1	1.36:1	1.03:1
—Total B.C. Hydro	**1.00:1**	1.06:1	1.08:1	1.22:1	1.24:1
Debt/Equity Ratio	**86:14**	84:16	84:16	83:17	85:15

On November 9, 1984 B.C. Hydro filed an application with the Commission to confirm a 6.5% interim electric rate increase which became effective April 15, 1984 and to further increase electric rates by

6.5% effective April 1, 1985. On May 13, 1985 B.C. Hydro filed an application seeking to amend its November 9, 1984 application by substituting a 3.75% interim electric increase for the previously requested 6.5% electric increase. On May 31, 1985 the Commission authorized the 3.75% interim electric increase effective June 13, 1985.

The interim electric rate increases are subject to refund, with interest, if so ordered by the Commission. At this time, the Commission has not made a decision on the application.

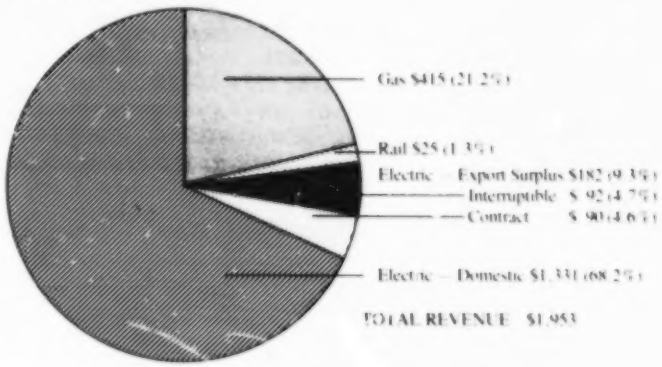
Results of Operations

B.C. Hydro's net income for the year ended March 31, 1985 was $3 million compared with a net income of $51 million in 1984 and income before extraordinary item of $58 million in 1983.

Total revenues for 1985 reached an all-time high of $1,953 million which was an increase of $340 million or 21% over the previous record set in 1984. Revenues from domestic sales of $1,771 million increased by $233 million from revenues of $1,538 million in 1984. Electric export surplus revenues totalled $182 million, $107 million higher than in 1984.

The large increase in revenues is explained by an increase of 19% in the volume of electricity sold, the 6.5% interim electric rate increase equivalent to $77 million and higher gas sales.

Sources of Revenue *($ millions) for the year ended March 31, 1985*

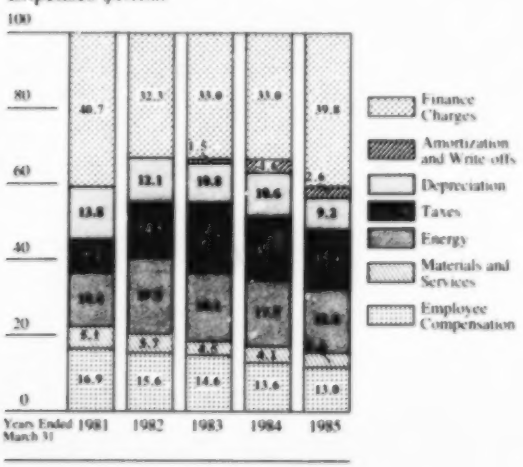

Gas $415 (21.2%)
Rail $25 (1.3%)
Electric — Export Surplus $182 (9.3%)
Interruptible $ 92 (4.7%)
Contract $ 90 (4.6%)
Electric — Domestic $1,331 (68.2%)
TOTAL REVENUE $1,953

Total operating expenses, including finance charges, increased by $366 million or 23% over the previous year mainly as a result of the placing in service of two major projects, the Revelstoke plant in 1984/85 and the first circuit of the Cheekye-Dunsmuir transmission line in November 1983. At year-end, the cost of fixed assets in service was $2,185 million more than at the end of the previous year.

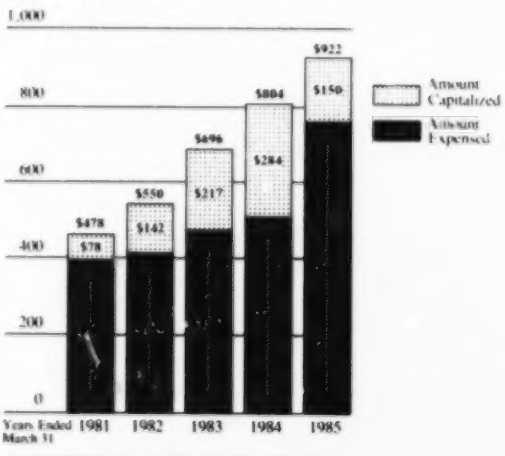
Most of the increase in operating expenses is attributable to finance charges. Finance charges increased by $252 million of which $146 million relates to Revelstoke plant, $30 million to Cheekye-Dunsmuir, $6 million to the Cathedral Square substation and the balance to the decline in the value of the Canadian dollar relative to the U.S. dollar.

Other operating expenses affected by the placing in service of additional fixed assets were taxes and depreciation; they increased by $37 million and $11 million respectively of which approximately $30 million relates to additional fixed assets in service.

Distribution of Operating Expenses *(percent)*



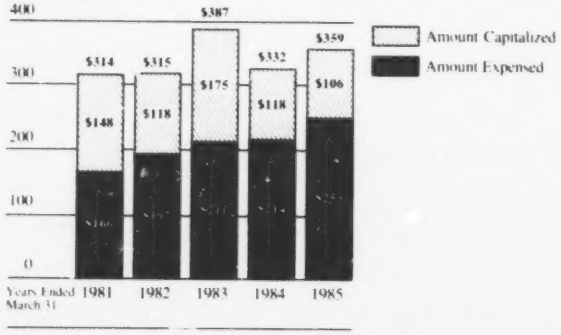
Finance Charges *($ millions)*



Total employee compensation increased by 8% to $359 million from $332 million in the previous year. Employee compensation costs for the prior year reflect payroll reductions because of the eleven-week employee strike in that year while the current year includes the cost of reducing the resulting backlogs of work and severance pay relating to the reduction in staff of more than 1,000 during the year.

Of the total employee compensation, $106 million was charged to capital projects and $253 million to operations. The amount charged to operations increased by $39 million over the previous year mainly as a result of increased severance allowances, a wage increase of 4½% given to most employees in December 1984 and the effects of the 11-week strike comparison in the previous year.

Employee Compensation
($ millions)

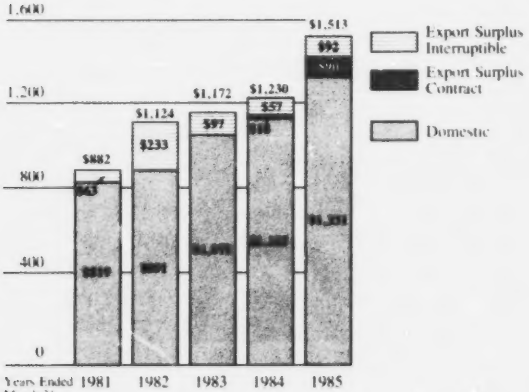


Electric Service

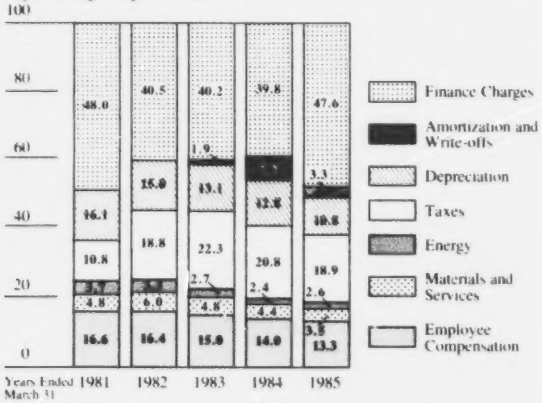
	Years ended March 31 1985	1984	Increase (decrease)
	(in millions)		%
Revenues — Domestic	**$1,331**	$1,155	15
— Export surplus	**182**	75	143
	1,513	1,230	23
Operating expenses excluding finance charges	**800**	726	10
Finance charges	**727**	479	52
	1,527	1,205	27
Operating income (loss)	**(14)**	25	
Adjustment for rate stabilization	**(8)**	14	
Net income (loss)	**$ (22)**	$ 39	
Electricity sold (kW·h in millions)			
— Domestic	**31 502**	29 069	8
— Export surplus	**6 378**	2 834	125

Operating loss for the electric service was $14 million in 1985 compared with an operating income of $25 million in 1984. After the adjustment for rate stabilization, net loss was $22 million in 1985 compared with a net income of $39 million in 1984.

Electric — Sources of Revenue
($ millions)



Electric — Distribution of Operating Expenses *(percent)*



Total electric revenues increased $283 million or 23% over the previous year. Domestic sales accounted for $176 million of this increase and export surplus sales for $107 million.

Increased domestic revenues are attributable to higher sales volumes for all major customer categories, especially transmission accounts, and to a lesser extent, higher rates. Consumption for transmission accounts increased by 19%, half of it attributable to increased activity in the pulp and paper and chemical and fertilizer industries with the other half due to the effects of the ten week pulp and paper shutdown from the previous year.

Half of the export surplus sales increase was attributable to sales to utilities in California with the other half to the U.S. Pacific Northwest. The new north-south transmission intertie access policy of the Bonneville Power Administration, which became effective in September 1984, curtailed B.C. Hydro's ability to sell to California.

Electric operating expenses, excluding finance charges, increased by $74 million over the previous year mainly as a result of increases of $37 million for taxes, $34 million for employee compensation and $11 million for energy.

Tax increases are attributable to higher water rentals as a result of higher rates, increased electric generation and an increased property tax assessment base.

Energy costs increased as a result of higher transmission charges on electricity exports.

Finance charges increased by $248 million over the previous year. The placing in service of the Revelstoke plant, the first circuit of the Cheekye-Dunsmuir transmission line and the Cathedral Square substation accounted for most of the increase with the decline in the value of the Canadian dollar relative to the U.S. dollar accounting for the balance.

Operating Statistics — Electric Service

years ended March 31

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Generating nameplate capacity at year-end (rated kW in thousands)*											
Hydroelectric	**9 332**	7 489	7 491	7 491	7 491	6 588	5 883	5 883	5 449	3 882	3 618
Thermal	**1 171**	1 271	1 341	1 347	1 346	1 360	1 363	1 293	1 301	1 299	1 104
Total	**10 503**	8 760	8 832	8 838	8 837	7 948	7 246	7 176	6 750	5 181	4 722
Peak one-hour demand integrated system (kW in thousands)	**6 193**	6 215	5 508	5 902	5 475	5 198	5 091	4 621	4 258	4 063	3 791
Customers at year-end											
Residential	**1 005 533**	987 659	967 754	943 587	915 270	882 923	858 397	829 266	797 588	760 066	733 432
General	**134 018**	133 652	132 383	130 818	128 163	124 754	123 124	121 407	117 580	113 579	108 006
Transmission	**67**	70	65	62	59	55	52	48	47	48	47
Other**	**2 265**	2 336	2 227	2 433	2 636	2 166	2 487	1 730	1 650	1 566	1 458
Export surplus	**22**	16	13	14	10	14	16	13	12	—	12
Total electric customers	**1 141 905**	1 123 733	1 102 442	1 076 914	1 046 138	1 009 912	984 076	952 464	916 877	875 259	842 955
Electricity sold (kW·h in millions)											
Residential	**9 667**	9 067	8 790	8 755	8 104	7 611	7 407	7 040	6 664	6 246	5 782
General	**10 285**	9 957	9 736	9 727	9 377	8 925	8 596	8 137	7 675	7 094	6 837
Transmission	**10 957**	9 240	9 040	9 305	9 612	9 229	9 147	8 527	8 166	6 808	7 714
Other**	**593**	805	1 074	1 177	1 129	688	623	446	672	490	394
Domestic	**31 502**	29 069	28 640	28 964	28 222	26 453	25 773	24 150	23 177	20 638	20 727
Export surplus	**6 378**	2 834	3 623	6 315	1 816	870	1 310	3 907	1 706	—	807
Total electricity sold	**37 880**	31 903	32 263	35 279	30 038	27 323	27 083	28 057	24 883	20 638	21 534
Increase (decrease) over previous year (%)	**18.7**	(1.1)	(8.5)	17.4	9.9	0.9	(3.5)	12.8	20.6	(4.2)	(2.0)
Electric revenues (dollars in millions)											
Residential	**$ 509**	$ 448	$ 410	$ 348	$312	$267	$255	$217	$180	$142	$119
General	**469**	425	389	328	301	261	246	205	169	138	116
Transmission	**307**	239	228	161	153	120	105	85	72	46	46
Other**	**28**	31	34	30	29	19	18	14	12	10	8
Rents and miscellaneous	**18**	12	14	24	24	15	14	12	11	8	6
Domestic	**1,331**	1,155	1,075	891	819	682	638	533	444	344	295
Export surplus	**182**	75	97	233	63	35	33	78	23	—	5
Total electric revenues	**$1,513**	$1,230	$1,172	$1,124	$882	$717	$671	$611	$467	$344	$300
Average revenue per kW·h (cents)											
Residential	**5.3**	4.9	4.7	4.0	3.8	3.5	3.4	3.1	2.7	2.3	2.1
General	**4.6**	4.3	4.0	3.4	3.2	2.9	2.9	2.5	2.2	2.0	1.7
Transmission	**2.8**	2.6	2.5	1.7	1.6	1.3	1.1	1.0	0.9	0.7	0.6
Other**	**4.8**	3.8	3.1	2.6	2.6	2.8	2.9	3.1	1.8	2.0	1.9
Export surplus	**2.9**	2.7	2.7	3.7	3.5	4.1	2.5	2.0	1.3	—	0.6
Average annual kW·h use per residential customer	**9 678**	9 267	9 214	9 413	9 001	8 736	8 747	8 620	8 452	8 370	7 928
Lines in service											
Distribution (kilometres)	**45 795+**	44 737+	42 231	40 789	39 472	38 279	37 125	36 129	35 093	34 089	32 701
Transmission (circuit kilometres)	**16 996**	16 701	16 543	16 098	15 335	15 258	14 793	14 259	14 082	12 733	12 424

* *Excludes electricity available from other systems. Rated capacity has been exceeded on occasion.* + *Includes B.C. Hydro lines on private property.*
** *Includes Irrigation and Street Lighting.*

Gas Service

	Years ended March 31 **1985**	1984	Increase (decrease)
	(in millions)		%
Revenues	**$415**	$361	15
Energy (Gas purchased)	**283**	247	15
Gross margin	**132**	114	16
Operating expenses excluding energy	**108**	100	8
Operating and net income	**$ 24**	$ 14	71
Gas sold (terajoules)	**99 635**	89 525	11

Operating and net income for the gas service was $24 million in 1985 compared with $14 million in 1984.

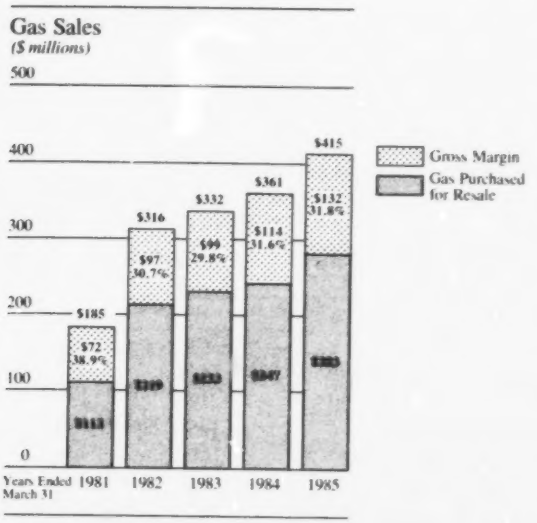
Gas revenues increased by $54 million over the previous year and energy costs increased by $36 million resulting in an improvement in the gross margin of $18 million.

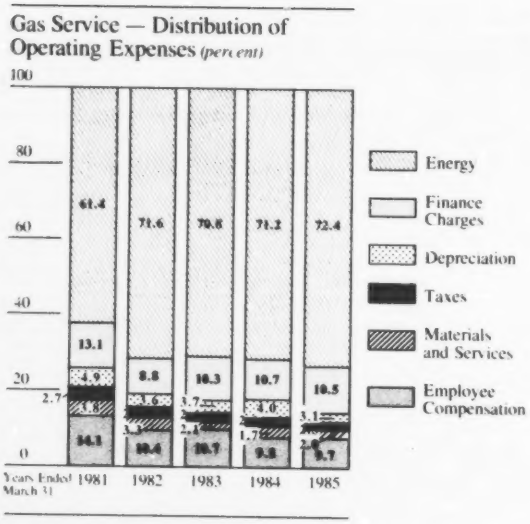
Most of the revenue increase is attributable to higher sales volumes. All customer categories, in particular Residential, showed significant increases in consumption over the previous year. Consumption for the Residential and General customer categories increased mainly as a result of the colder weather in the winter heating season. In terms of degree days, the last heating season was 13% colder than the previous year.

Operating Statistics — Gas Service

years ended March 31

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
One-day capacity at year-end (terajoules)											
Mainland — firm pipeline contracts	**382**	382	413	409	388	380	422	422	422	422	411
— plant	**158**	158	158	158	158	158	158	158	158	158	158
— underground storage	**66**	56	—	—	—	—	—	—	—	—	—
Greater Victoria — plant	**6**	6	6	6	6	6	6	6	6	6	6
Peak one-day demand (terajoules)											
Mainland system											
— including interruptible	**593**	610	493	586	493	507	510	404	377	430	368
— excluding interruptible	**526**	609	419	564	488	486	508	402	365	364	356
Greater Victoria system	**2**	2	1	2	2	2	2	2	2	2	2
Customers at year-end											
Residential	**323 750**	312 444	304 326	294 838	282 894	263 036	252 032	245 638	238 290	228 848	220 027
General	**38 402**	37 859	37 443	36 476	35 374	34 537	33 684	32 596	31 365	30 120	29 227
Interruptible	**103**	103	99	95	98	103	103	101	112	115	121
Total gas customers	**362 255**	350 406	341 868	331 409	318 366	297 676	285 819	278 335	269 767	259 083	249 375
Gas sold (terajoules)											
Residential	**41 044**	36 091	33 646	37 694	31 806	31 962	32 450	31 215	30 552	32 093	29 485
General	**36 534**	33 118	32 357	36 069	32 057	32 085	34 001	30 568	28 119	28 313	25 412
Interruptible	**22 057**	20 316	19 956	22 484	21 758	24 027	21 282	21 490	21 335	20 150	22 202
Total gas sold	**99 635**	89 525	85 969	96 247	85 621	88 074	87 733	83 273	80 006	80 556	77 099
Increase (decrease) over previous year (%)	**11.3**	4.1	(10.7)	12.4	(2.8)	0.4	5.4	4.1	(0.7)	4.5	2.8
Gas Revenues (dollars in millions)											
Residential	**$187**	$162	$145	$139	$ 81	$ 75	$ 74	$ 66	$ 52	$46	$40
General	**154**	135	126	118	70	64	66	46	35	30	25
Interruptible	**72**	63	60	56	33	33	29	23	16	13	13
Rents and miscellaneous	**2**	1	1	3	1	1	1	1	1	1	—
Total gas revenues	**$415**	$361	$332	$316	$185	$173	$170	$136	$104	$90	$78
Average revenue per gigajoule (in dollars)	**4.14**	4.02	3.85	3.25	2.14	1.95	1.93	1.62	1.30	1.11	1.01





Rail Service

	Years ended March 31 1985	1984	Increase (decrease)
	(in millions)		%
Revenues from operations	**$20**	$22	(9)
Operating expenses	**23**	23	—
Operating (loss)	**(3)**	(1)	(200)
Gain on sale of property	**5**	—	
Net income (loss)	**$ 2**	$ (1)	
Freight carried (tonnes in thousands)	**1 837**	2 005	(8)

The operating loss for the rail service before the gain on the disposal of property was $3 million as compared to an operating loss of $1 million in 1984.

Rail revenue attributable to freight carried was down $2 million or 9% from the previous year. The decrease in revenues is due to the decrease in freight carried and lower prices as a result of the deregulation in the United States.

Operating Statistics — Rail Service

years ended March 31

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Freight carried (tonnes in thousands)	**1 837**	2 005	1 784	2 383	2 458	2 603	2 536	2 397	2 393	2 321	2 494

Capital Requirements

During the year ended March 31, 1985, capital expenditures totalled $484 million, $139 million to complete the Revelstoke project, $147 million for the Cheekye-Dunsmuir transmission line and the balance primarily for improvements and expansion of the electric distribution system.

The four generating units of the Revelstoke project came into service in fiscal 1985. The project represents an addition of 1843 megawatts or 21% to B.C. Hydro's generating nameplate capacity at a cost of $2 billion.

The following table is a summary of actual capital expenditures for the period 1981 through 1985:

	Total Fixed Asset Expenditures Years Ended March 31				
	1985	1984	1983	1982	1981
			(in millions)		
ELECTRIC					
Generation	**$139**	$401	$ 502	$ 465	$281
Transmission	**175**	250	260	213	176
Transformation	**35**	61	119	149	95
Distribution	**75**	59	85	104	107
Other	**18**	10	31	60	36
Total electric	**442**	781	997	991	695
GAS	**40**	33	37	60	44
RAIL	**1**	5	1	2	1
SUNDRY	**1**	1	2	—	—
TOTAL	**$484**	$820	$1,037	$1,053	$740

B.C. Hydro's latest load forecast identifies a load growth which is lower than that forecast in the previous year. Continuing emphasis is therefore being placed on reducing capital expenditures and operating costs.

Financing

During the year, B.C. Hydro borrowed $444 million payable in Canadian currency at an effective interest cost of 12.73% and U.S. $188 million payable in U.S. currency at an effective interest cost of 14.03%.

As at March 31, 1985, B.C. Hydro's outstanding long-term debt totalled $9,469 million; of this amount, $4,366 million was payable in Canadian currency and $5,103 million was payable in U.S. currency (U.S. $3,742). The effective interest cost on debt outstanding as at March 31, 1985 was 12.04%.

Many long-term borrowings have sinking fund provisions to ensure that funds are available at maturity to repay a significant portion of the debt. As at March 31, 1985, the sinking fund balance totalled $900 million.

Redemptions during the year and sinking fund payments including investment of sinking fund income amounted to $276 million and $191 million respectively.

B.C. Hydro's credit ratings from the two major financial rating agencies in the United States, Moody's Investors Service and Standard & Poor's Corporation remained unchanged during the year at Aa1 and AA+ respectively.

Financial Statistics *(in millions)*

years ended March 31

	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Sources of Revenue											
Electric	**$ 1,513**	$1,230	$1,172	$1,124	$ 882	$ 717	$ 671	$ 611	$ 467	$ 344	$ 300
Gas	**415**	361	332	316	185	173	170	136	104	90	78
Rail	**25**	22	22	27	25	23	21	18	16	15	14
Sundry	**—**	—	2	6	5	3	1	1	1	2	—
Provincial Government special subsidy	**—**	—	—	—	—	—	—	—	33	33	—
Total	**$ 1,953**	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621	$ 484	$ 392
Disposition of Revenue											
Employee compensation	**$ 253**	$ 214	$ 212	$ 197	$ 166	$ 144	$ 132	$ 126	$ 115	$ 104	$ 79
Materials and services	**66**	64	65	72	50	45	44	48	43	31	29
Energy	**323**	276	262	250	142	131	121	91	65	60	50
Taxes	**299**	262	254	183	90	71	66	53	45	39	28
Depreciation	**179**	168	157	148	133	117	106	96	77	70	64
Amortization and write-off of deferred development studies	**50**	72	22	5	3	2	1	1	1	—	—
Finance charges	**772**	520	479	408	400	310	283	262	187	142	116
Total	**1,942**	1,576	1,451	1,263	984	820	753	677	533	446	366
Adjustment for rate stabilization	**8**	(14)	19	90	—	—	—	—	—	—	—
	1,950	1,562	1,470	1,353	984	820	753	677	533	446	366
Loss on passenger transportation operations	**—**	—	—	—	—	56	61	61	50	36	21
	1,950	1,562	1,470	1,353	984	876	814	738	583	482	387
Loss on discontinuance of passenger transportation operations	**—**	—	—	—	—	38	—	—	—	—	—
Loss on deferral of Hat Creek project	**—**	—	77	—	—	—	—	—	—	—	—
Employed in the business	**3**	51	(19)	120	113	2	49	28	38	2	5
Total	**$ 1,953**	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621	$ 484	$ 392
Fixed Assets											
In service	**$10,231**	$8,046	$7,566	$7,192	$6,691	$5,991	$5,339	$4,921	$4,541	$3,607	$3,254
Accumulated depreciation	**1,824**	1,660	1,499	1,345	1,199	1,063	980	878	784	706	634
	$ 8,407	$6,386	$6,067	$5,847	$5,492	$4,928	$4,359	$4,043	$3,757	$2,901	$2,620
Fixed asset expenditures	**$ 484**	$ 820	$1,037	$1,053	$ 740	$ 755	$ 722	$ 641	$ 548	$ 591	$ 464
Contributions in aid of construction	**31**	30	65	37	32	25	19	22	22	20	12
Net fixed asset expenditures	**$ 453**	$ 790	$ 972	$1,016	$ 708	$ 730	$ 703	$ 619	$ 526	$ 571	$ 452
Long-Term Debt	**$ 8,387**	$7,203	$6,833	$6,425	$5,324	$5,176	$4,739	$4,337	$3,605	$2,990	$2,515

Employees at year-end*

Regular	**6 764**	7 739	8 212	8 610	8 441	11 330	11 618	11 611	11 339	11 226	10 361
Temporary	**385**	466	455	1 123	1 099	865	932	946	1 001	807	1 255
Total	**7 149**	8 205	8 667	9 733	9 540	12 195	12 550	12 557	12 340	12 033	11 616

* *1975 to 1980 includes passenger transportation employees*

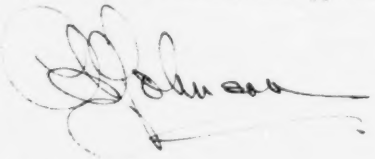
Financial Statements

Management Report

The financial statements of B.C. Hydro have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied except where noted, and appropriate in the circumstances. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

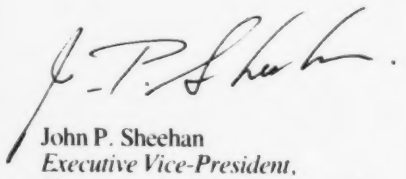
Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. This system includes formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. Our internal auditors monitor this system through the performance of a comprehensive internal audit program. Our external auditors, Price Waterhouse, also perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of Price Waterhouse, the internal auditors and management in order to satisfy themselves that B.C. Hydro's system of internal controls is functioning correctly.

Management is responsible for all of the information in this Annual Report, which has been reviewed by the Audit Committee and approved by the Board of Directors.



Chester A. Johnson
Chairman

June 7, 1985



John P. Sheehan
Executive Vice-President, Finance and Administration and Chief Financial Officer

Report of the Auditors

The Lieutenant Governor in Council,
Province of British Columbia:

We have examined the balance sheets of British Columbia Hydro and Power Authority as at March 31, 1985 and 1984 and the statements of income and earnings employed in the business and changes in financial position for each of the three years in the period ended March 31, 1985. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of British Columbia Hydro and Power Authority as at March 31, 1985 and 1984 and the results of its operations and the changes in its financial position for each of the three years in the period ended March 31, 1985 in accordance with generally accepted accounting principles consistently applied, after giving effect to the change in accounting for foreign currency translation, as explained in Note 2 to the financial statements.

Vancouver, British Columbia
June 7, 1985

PRICE WATERHOUSE
Chartered Accountants

British Columbia Hydro and Power Authority

Statement of Income and Earnings Employed in the Business

for the years ended March 31

	1985	1984	1983
		(in millions)	
REVENUES:			
Electric— Domestic *(Note 12)*	**$1,331**	$1,155	$1,075
— Export surplus *(Notes 3 and 4)*	**182**	75	97
Total Electric	**1,513**	1,230	1,172
Gas	**415**	361	332
Rail	**25**	22	22
Sundry	**—**	—	2
Total Revenues	**1,953**	1,613	1,528
EXPENSES:			
Employee compensation	**253**	214	212
Materials and services	**66**	64	65
Energy *(Note 5)*	**323**	276	262
Taxes	**299**	262	254
Depreciation *(Note 6)*	**179**	168	157
Amortization and write-off of deferred development studies *(Note 6)*	**50**	72	22
	1,170	1,056	972
OPERATING INCOME BEFORE FINANCE CHARGES	**783**	557	556
Finance charges *(Note 7)*	**772**	520	479
OPERATING INCOME	**11**	37	77
Adjustment for rate stabilization *(Note 3)*	**(8)**	14	(19)
INCOME BEFORE EXTRAORDINARY ITEM	**3**	51	58
Extraordinary item *(Note 13)*	**—**	—	(77)
NET INCOME (LOSS)	**3**	51	(19)
EARNINGS EMPLOYED IN THE BUSINESS:			
At beginning of year, as previously reported	**545**	494	513
Adjustment for accounting policy change *(Note 2)*	**(24)**	—	—
As restated	**521**	494	513
At end of year	**$ 524**	$ 545	$ 494

1983 and 1984 figures have been reclassified to conform with the presentation used for 1985.

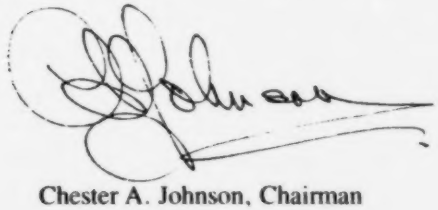
British Columbia Hydro and Power Authority

Balance Sheet

as at March 31

	1985	1984
		(in millions)
FIXED ASSETS *(Note 6)*:		
Fixed assets in service	**$10,231**	$8,046
Less —		
Accumulated depreciation	**1,824**	1,660
	8,407	6,386
Unfinished construction	**588**	2,375
	8,995	8,761
CURRENT ASSETS:		
Temporary investments	**239**	300
Accounts receivable and unbilled revenues	**391**	292
Materials and supplies	**42**	54
Prepaid expenses	**42**	36
	714	682
UNAMORTIZED DEFERRED CHARGES:		
Foreign currency translation *(Note 2)*	**700**	—
Discount and issue costs	**93**	74
	793	74
OTHER ASSETS	**77**	76
	$10,579	$9,593

APPROVED ON BEHALF OF THE BOARD:



Chester A. Johnson, Chairman

Sandra D. Sutherland Q.C., Director

	1985	1984
		(in millions)
LONG-TERM LIABILITIES:		
Long-term debt *(Notes 2, 8 and 9)*	**$ 8,387**	$7,203
Deferred liabilities	**39**	47
	8,426	7,250
CURRENT LIABILITIES:		
Bank indebtedness	**101**	62
Accounts payable	**235**	312
Accrued interest	**347**	303
Long-term debt payments due within one year —		
Sinking fund instalments	**95**	97
Maturities, less sinking fund	**87**	276
	865	1,050
RATE STABILIZATION ACCOUNT *(Note 3)*	**103**	95
CONTRIBUTIONS ARISING FROM COLUMBIA RIVER TREATY	**368**	378
CONTRIBUTIONS IN AID OF CONSTRUCTION	**293**	275
EARNINGS EMPLOYED IN THE BUSINESS	**524**	545
COMMITMENTS AND CONTINGENCIES *(Notes 11 and 12)*		
	$10,579	$9,593

British Columbia Hydro and Power Authority

Statement of Changes in Finar ·ial Position

for the years ended March 31

	1985	1984	1983
		(in millions)	
OPERATING ACTIVITIES:			
Operating income	**$ 11**	$ 37	$ 77
Depreciation, amortization and write-off	**278**	259	195
Working capital (decrease)	**(126)**	51	61
Other	**(5)**	(20)	(17)
Funds provided by operating activities	**158**	327	316
FINANCING ACTIVITIES:			
Issue of long-term debt	**660**	786	663
Contributions in aid of construction	**27**	17	45
Retirement of long-term debt	**(276)**	(145)	(100)
Sinking fund — Instalments	**(99)**	(87)	(72)
— Income reinvested	**(92)**	(70)	(56)
Other	**(2)**	(1)	(1)
Funds provided by financing activities	**218**	500	479
INVESTING ACTIVITIES:			
Fixed asset expenditures	**(484)**	(820)	(1,037)
Net proceeds from (cost of) fixed asset retirements	**13**	(5)	(1)
Loans and mortgages	**(5)**	(12)	(19)
Funds used for investing activities	**(476)**	(837)	(1,057)
INCREASE (DECREASE) IN FUNDS	**(100)**	(10)	(262)
FUNDS AT BEGINNING OF YEAR	**238**	248	510
FUNDS AT END OF YEAR	**$ 138**	$ 238	$ 248

Increase (decrease) in working capital:			
Accounts receivable	**$ (99)**	$ (43)	$ 44
Accounts payable	**(77)**	65	(11)
Accrued interest	**44**	26	50
Other current assets	**6**	3	(22)
	$ (126)	$ 51	$ 61

Funds consist of temporary investments net of bank indebtedness.

1983 and 1984 figures have been reclassified to conform with the presentation used for 1985.

Notes to Financial Statements

Note 1 Significant Accounting Policies:

B.C. Hydro is a Crown corporation of the Province of British Columbia. B.C. Hydro's electric and gas services, including rates, are subject to regulation by the British Columbia Utilities Commission (the "Commission"). The accounting policies of the corporation conform to accounting principles generally accepted in Canada. A description of significant accounting policies follows. See also Note 2 regarding an accounting policy change and Note 3 for an explanation of the rate stabilization account.

FIXED ASSETS

Fixed assets in service consist principally of land, water rights, storage dams, plant for the generation, transmission and distribution of electricity and the distribution of gas, freight railway and rolling stock, and include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty.

Fixed assets are carried at cost which includes material, direct labour and appropriate portions of engineering, administration and finance charges.

Capital development studies and projects which are abandoned or subject to indefinite deferral are written off. Capital development studies for which work is deferred for more than one year are amortized on a straight-line basis until the work is recommenced. Capital projects which are deferred but for which there is some reasonable probability they will proceed have a provision made for costs specifically identified as having reduced or no future value.

DEPRECIATION

The depreciation policy of B.C. Hydro is to charge the original cost of fixed assets to income over the estimated service lives of the assets. Depreciation is provided on all depreciable assets in service as at the beginning of each year and is computed using the straight-line method.

FINANCE CHARGES CAPITALIZED

B.C. Hydro capitalizes finance charges at rates equivalent to the cost of borrowing those funds expended on construction projects during each year of construction.

CONTRIBUTIONS

Contributions in aid of construction are amortized over the estimated service lives of the related assets, and the credit resulting therefrom is offset against the corresponding provision for depreciation.

Contributions arising from the Columbia River Treaty are amortized over the period ending in fiscal year 2025, the minimum term of the Treaty, and the credit resulting therefrom is offset against and is equal to the annual provision for depreciation of the related assets.

Contributions received in respect of unfinished construction are included with deferred liabilities until the assets are placed in service.

FOREIGN CURRENCY TRANSLATION

Long-term debt, current assets and current liabilities denominated in a foreign currency are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date. Unrealized gains and losses arising from the translation of long-term debt are deferred and included in unamortized deferred charges — foreign currency translation. These deferred charges are amortized over the remaining term of the debt. Foreign exchange gains and losses on current assets and current liabilities are included in income.

DISCOUNT AND ISSUE COSTS

Discount and issue costs on long-term debt are amortized by charges to income on a straight-line basis over the terms of the respective debt.

TEMPORARY INVESTMENTS

Temporary investments are valued at the lower of cost and market.

UNBILLED REVENUES

Customers are billed on a cyclical basis for deliveries of electricity and gas. Unbilled deliveries are accrued and included in revenue.

MATERIALS AND SUPPLIES

Materials and supplies are valued at average cost, less provisions for declines in value due to damage and obsolescence.

Note 2 Change in Accounting Policy:

As at April 1, 1984 B.C. Hydro adopted on a retroactive basis the new foreign currency translation recommendations of the Canadian Institute of Chartered Accountants. Previously, long-term debt was translated at the rates of exchange prevailing at the date the debt was incurred. The effect of this change for the year ended March 31, 1985 was to increase net income by $6 million.

The change to the new policy has been made by an adjustment to earnings employed in the business as of April 1, 1984 rather than by restatement of the financial statements of prior years. Had the accounting policy change been applied to individual prior years, net income for the years ended March 31, 1984 and 1983 would have decreased by $10 million and $5 million respectively.

The principal effects of this change on the March 31, 1985 balance sheet have been to increase long-term debt by $726 million and establish unamortized deferred charges — foreign currency translation of $700 million.

Note 3 Rate Stabilization Account:

The Commission directed B.C. Hydro to create as of March 31, 1982, an account to be known as the rate stabilization account in the amount of $90 million, derived from export sales of surplus electric energy.

For fiscal years subsequent to March 31, 1982, B.C. Hydro has been directed to credit to the rate stabilization account annually, an amount based upon revenues derived from export sales of surplus electric energy (exclusive of sales of firm energy under approved export contracts) less direct expenses associated with such sales, including water rentals calculated by reference to the electricity generated to make such export sales, provided the account does not at any time exceed $200 million.

For each of the fiscal years subsequent to March 31, 1982, the Commission has ordered B.C. Hydro to transfer from the rate stabilization account an amount of $60 million, or such lesser amount as will reduce the account balance to nil, to be credited to income in the year, unless otherwise directed.

An analysis of the rate stabilization account is as follows:

	Years ended March 31		
	1985	1984	1983
		(in millions)	
Balance at beginning of year	**$ 95**	$109	$ 90
Transfer from income (Note 4)	**68**	46	79
Transfer to income	**(60)**	(60)	(60)
Adjustment for rate stabilization	**8**	(14)	19
Balance at end of year	**$103**	$ 95	$109

Note 4 Export Surplus:

Income from export surplus sales for each year was as follows:

	Years ended March 31		
	1985	1984	1983
		(in millions)	
Export surplus revenues	**$182**	$ 75	$ 97
Less: Direct expenses-			
Transmission charges	**26**	3	4
Water rentals	**17**	9	14
	43	12	18
Income before rate stabilization	**139**	63	79
Amount transferred to Rate Stabilization Account (Note 3)	**(68)**	(46)	(79)
Income from sales under approved export contracts	**$ 71**	$ 17	$ —

As directed by the Commission, income from export surplus sales is transferred to the rate stabilization account if it meets the conditions set out in Note 3 to the financial statements.

Note 5 Energy:

	Years ended March 31		
	1985	1984	1983
		(in millions)	
Gas purchased for resale	**$283**	$247	$233
Transmission of electricity	**26**	4	5
Purchase of electricity	**—**	12	11
Fuel for generation	**14**	13	13
	$323	$276	$262

Note 6 Fixed Assets:

	1985					1984
	Fixed Assets in Service			**Unfinished Construction**	**Total**	Total
	Original Cost	**Accumulated Depreciation**	**Net Book Value**			
			(in millions)			
Electric Service						
Generation and storage	**$ 4,994**	**$ 598**	**$4,396**	**$ 82**	**$4,478**	$4,362
Transmission	**1,866**	**322**	**1,544**	**370**	**1,914**	1,772
Transformation	**1,148**	**244**	**904**	**95**	**999**	986
Distribution	**1,220**	**357**	**863**	**—**	**863**	830
Buildings and other	**277**	**130**	**147**	**7**	**154**	237
Total Electric Service	**9,505**	**1,651**	**7,854**	**554**	**8,408**	8,187
Gas Service	**487**	**95**	**392**	**33**	**425**	397
Rail Service	**48**	**22**	**26**	**1**	**27**	32
Common Properties	**180**	**56**	**124**	**—**	**124**	134
Sundry	**11**	**—**	**11**	**—**	**11**	11
Total	**$10,231**	**$1,824**	**$8,407**	**$588**	**$8,995**	$8,761

DEPRECIATION

The composite depreciation rates for each year in the three-year period ended March 31, 1985 were as follows:

	1985	1984	1983
	(%)	(%)	(%)
Electric Service	**2.54**	2.52	2.47
Gas Service	**2.38**	2.39	2.44
Rail Service	**3.77**	3.71	3.64
Common Properties	**6.18**	6.59	5.78

AMORTIZATION AND WRITE-OFF OF DEFERRED DEVELOPMENT STUDIES

The amortization and write-offs related mainly to the following development studies: 1985 Iskut-Stikine — $41 million; 1984 Meager Creek — $26 million, Liard — $17 million and Iskut-Stikine — $11 million; 1983 Meager Creek — $6 million.

The amounts amortized and written off for each year in the three-year period ended March 31, 1985 were as follows:

	1985	1984	1983
		(in millions)	
Amortization	**$ 9**	$25	$17
Write-offs	**41**	47	5
	$50	$72	$22

Note 7 Finance Charges:

	Years ended March 31		
	1985	1984	1983
		(in millions)	
Interest on long-term debt	**$ 994**	$872	$800
Foreign exchange adjustments on long-term debt	**37**	12	11
Amortization of discount and issue costs	**12**	7	5
Other finance charges	**4**	2	2
	1,047	893	818
Less: Income from sinking fund investments held by Trustee	**92**	70	56
Income from temporary investments	**33**	19	66
	125	89	122
	922	804	696
Less: Finance charges capitalized	**150**	284	217
	$ 772	$520	$479

The effective rate for finance charges capitalized to unfinished construction during the year ended March 31, 1985 was 13.9% (1984 — 12.2%; 1983 — 15.8%).

Note 8 Long-Term Debt:

	1985	1984
		(in millions)
Total long-term debt outstanding —		
Payable in Canadian currency	**$4,366**	$4,184
Payable in United States currency (U.S. $3,742; 1984 — U.S. $3,583)	**5,103**	4,113
	9,469	8,297
Less: Sinking funds with Trustee, Minister of Finance for the Province of British Columbia*	**900**	721
	8,569	7,576
Less: Long-term debt payments due within one year —		
Sinking fund instalments	**95**	97
Maturities, less sinking fund	**87**	276
	182	373
	$8,387	$7,203

** Includes investments in United States currency in the amount of U.S. $92 million (1984 — U.S. $77 million).*

B.C. Hydro had 170 series of long-term debt outstanding at March 31, 1985 (1984 — 145). Coupon rates on this long-term debt range from 3¾ % to 16¼ %. The effective interest cost on long-term debt outstanding at March 31, 1985 was 9.40% (1984 — 9.21%) for Canadian denominated debt and 12.37% (1984 — 12.26%) for U.S. denominated debt.

The following long-term debt, in addition to 24 smaller issues totalling Canadian $177 million and U.S. $38 million, were issued by B.C. Hydro during the year ended March 31, 1985:

Coupon Rate	Series	Date of Maturity	Principal
13⅜%	FR	July 26, 1988	U.S. $150 million
13.635%	FS	July 30, 1994	Cdn. $ 55 million
12¾%	GP	October 1, 1989	Cdn. $ 62 million
10¾%	GR	February 6, 1990	Cdn. $150 million

Many of the series have annual sinking fund requirements. Total long-term debt maturity payments and sinking fund instalments of the long-term debt outstanding as at March 31, 1985 were as follows:

Year Ending March 31	Principal Amount of Maturities	Estimated Funds Accumulated to Maturity Date in Sinking Funds	Cash Requirements		
			Net Debt Maturities	Sinking Funds	Total
		(in millions)			
1986	$ 149	$ 62	$ 87	$ 95	$ 182
1987	283	107	176	106	282
1988	539	104	435	106	541
1989	504	72	432	104	536
1990	623	87	536	97	633
	2,098	432	1,666	508	2,174
1991-1995	2,046	1,099	947	403	1,350
1996-2000	895	682	213	330	543
2001-2005	1,659	1,659	—	231	231
2006-2010	916	916	—	88	88
2011-	1,855	1,855	—	11	11
	$9,469	$6,643	$2,826	$1,571	$4,397

Net debt maturities represent the principal amount of maturities less estimated sinking funds at maturity, based on assumed average annual earnings of approximately 11% on existing sinking fund investments and future sinking fund instalments, and estimated discounts on anticipated purchases of bonds subject to annual mandatory redemption. The translation of amounts denominated in a foreign currency is based on the rate of exchange in effect at March 31, 1985.

Certain B.C. Hydro debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance of the Province of British Columbia contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. As at March 31, 1985 this debt amounted to $892 million (1984 — $829 million) net of sinking funds.

Note 9 Guarantee by Province of British Columbia:

Except for $355 million of non-transferable debt issued to the Province of British Columbia, the Provincial Government has unconditionally guaranteed B.C. Hydro's long-term debt as to principal, premium, if any, and interest.

Note 10 Pension Plans:

Employees of B.C. Hydro are covered under contributory pension plans. It is B.C. Hydro's practice to obtain periodic actuarial valuations of the plans for purposes of determining annual pension costs and funding requirements. Current service costs are provided for and funded when incurred. Past service pension costs and accrued deficits arising from plan amendments, changes in actuarial assumptions and indexing supplements to existing pensioners are provided for and funded over periods and in amounts recommended by the actuary.

A summary actuarial report, dated April 25, 1985 indicated an accrued actuarial deficit in the principal plan as at December 31, 1984 of approximately $29 million (1983 — $44 million). B.C. Hydro is funding the deficit by annual payments of approximately $4 million per annum to March 31, 1997 and $3 million per annum thereafter to March 31, 2000.

The total cost to B.C. Hydro in respect of pension plans, including its share of Canada Pension Plan costs, for the year ended March 31, 1985 was $25 million (1984 — $25 million; 1983 — $29 million), of which $18 million (1984 — $16 million; 1983 — $17 million) was charged to income and the balance capitalized and included in fixed assets.

Note 11 Commitments and Contingencies:

Purchase commitments and contracts of B.C. Hydro for capital projects aggregated approximately $45 million as at March 31, 1985.

The powerplant and concrete dam contractor on the Revelstoke project delivered in March 1984 a submission of claims for substantial unanticipated costs with respect to the work performed to completion to a maximum amount of $128 million. It is expected that B.C. Hydro will deny liability for the substantial part of ail the claims made. Should any amount be paid by B.C. Hydro as a result of the claims, it will be capitalized as part of construction expenditures and included in fixed assets.

Note 12 Interim Rate Increase:

Effective April 15, 1984, B.C. Hydro implemented an interim electric rate increase of 6.5%. This interim rate increase is subject to refund with interest, in whole or in part, if so ordered by the Commission. Revenue derived from the rate increase for the period April 15, 1984 to March 31, 1985 amounted to approximately $77 million.

Note 13 Extraordinary Item:

In July 1982, the Hat Creek project was deferred indefinitely as a result of rising project costs and reduced rates of growth in projected electrical demand. Project costs, including the costs of demobilization, in the amount of $77 million, have been written off and shown as an extraordinary item in the statement of income and earnings employed in the business for the year ended March 31, 1983.

Note 14 Segment Information:

B.C. Hydro is engaged in the operation of three principal services: generation, transmission and distribution of electricity; distribution of gas; and provision of a rail service.

Most expenses are directly attributable to specific services and common expenses are allocated among the services. Export surplus expenses include only direct costs, namely transmission charges and water rentals.

Identifiable assets are those assets that are used in each service's operations. Corporate assets are principally temporary investments and unamortized deferred charges.

	Electric									Gas			Rail *			Sundry			Combined		
	Domestic			Export Surplus			Total Electric														
Year ended March 31 *(in millions)*	**1985**	1984	1983	**1985**	1984	1983	**1985**	1984	1983	**1985**	1984	1983	**1985**	1984	1983	**1985**	1984	1983	**1985**	1984	1983
Revenues	**$1,331**	$1,155	$1,075	**$182**	$ 75	$ 97	**$1,513**	$1,230	$1,172	**$415**	$361	$332	**$25**	$ 22	$ 22	**$—**	$ —	$ 2	**$ 1,953**	$1,613	$1,528
Expenses:																					
Employee compensation	**203**	169	164	**—**	—	—	**203**	169	164	**38**	34	35	**12**	11	13	**—**	—	—	**253**	214	212
Materials and services	**54**	53	53	**—**	—	—	**54**	53	53	**8**	6	7	**4**	5	5	**—**	—	—	**66**	64	65
Energy	**14**	26	25	**26**	3	4	**40**	29	29	**283**	247	233	**—**	—	—	**—**	—	—	**323**	276	262
Taxes	**271**	242	230	**17**	9	14	**288**	251	244	**9**	9	8	**2**	2	2	**—**	—	—	**299**	262	254
Depreciation	**165**	154	144	**—**	—	—	**165**	154	144	**12**	12	11	**2**	2	2	**—**	—	—	**179**	168	157
Amortization and write-off of deferred development studies	**50**	70	21	**—**	—	—	**50**	70	21	**—**	2	1	**—**	—	—	**—**	—	—	**50**	72	22
Total expenses	**757**	714	637	**43**	12	18	**800**	726	655	**350**	310	295	**20**	20	22	—	—	—	**1,170**	1,056	972
Operating income before finance charges	**574**	441	438	**139**	63	79	**713**	504	517	**65**	51	37	**5**	2	—	**—**	—	2	**783**	557	556
Finance charges	**727**	479	441	**—**	—	—	**727**	479	441	**41**	37	34	**3**	3	3	**1**	1	1	**772**	520	479
Operating income (loss)	**(153)**	(38)	(3)	**139**	63	79	**(14)**	25	76	**24**	14	3	**2**	(1)	(3)	**(1)**	(1)	1	**11**	37	77
Adjustment for rate stabilization	**60**	60	60	**(68)**	(46)	(79)	**(8)**	14	(19)	**—**	—	—	**—**	—	—	**—**	—	—	**(8)**	14	(19)
Income (loss) before extraordinary item	**$ (93)**	$ 22	$ 57	**$ 71**	$ 17	$ —	**$ (22)**	$ 39	$ 57	**$ 24**	$ 14	$ 3	**$ 2**	$ (1)	$ (3)	**$(1)**	$ (1)	$ 1	**$ 3**	$ 51	$ 58
Identifiable assets							**$8,792**	$8,621	$8,062	**$562**	$523	$450	**$45**	$ 53	$ 50	**$12**	$ 12	$ 14	**$ 9,411**	$9,209	$8,576
Corporate assets																			**1,168**	384	334
Total assets																			**$10,579**	$9,593	$8,910
Expenditures on fixed assets							**$ 442**	$ 781	$ 997	**$ 40**	$ 33	$ 37	**$ 1**	$ 5	$ 1	**$ 1**	$ 1	$ 2	**$ 484**	$ 820	$1,037

** The 1985 Rail revenues include a $5 million gain on the sale of property; revenues from normal operations are $20 million and operating loss $3 million.*

Corporate Organization

as at March 31, 1985

Directors:

Samuel Belzberg
The Honourable Hugh A. Curtis
Chester A. Johnson[1]
The Honourable Patrick L. McGeer
Newell R. Morrison[1]
J. Norman Olsen
Charles E. Osterloh[2]
The Honourable Stephen Rogers[1 4]
J. Guy Rose[2 3]
William L. Sauder[1]
Sandra D. Sutherland, Q.C.[2 3]
John S. Waldie[2 3]
L. Allan Williams, Q.C.[1 3]

[1] *Member of the Executive Committee*
[2] *Member of the Audit Committee*
[3] *Member of the Budget Committee*
[4] *Minister responsible*

Executive Management Committee:

Chester A. Johnson
Newell R. Morrison
William L. Sauder
L. Allan Williams, Q.C.

Officers:

Chester A. Johnson
Chairman

J. Norman Olsen
President and Chief Operating Officer

William A. Best
Executive Vice-President, Business Operations

John P. Sheehan
Executive Vice-President, Finance and Administration

William D. Mitchell
Secretary

Tanis M. Stephenson
Associate Secretary

William M. Walker
Chief Engineer

Group Organization:

OFFICE OF THE CHAIRMAN
William D. Mitchell,
Vice-President and General Counsel

OFFICE OF THE PRESIDENT
Corporate Planning
Hugh J. Goldie,
Vice-President

Conrad B. Guelke,
Director of Strategic Planning

Division Manager:
Donald G. McFarlane,
System Engineering

Engineering
Raymond H. Hunt,
Senior Vice-President

Division Managers:
Ian C. Dirom,
Transmission Projects (Acting)

F. James Patterson,
Hydroelectric Generation Projects

Milo A. Petkovic,
Station Projects (Acting)

James C. Stevens,
Engineering Services

Michael G. Wellings,
Hydro Force Construction (Acting)

Public Affairs
Douglas K. Coupar,
Vice-President

SPECIAL TECHNICAL SERVICES
William M. Walker,
Vice-President

Harry M. Ellis,
Director of Research and Development

OFFICE OF THE EXECUTIVE VICE-PRESIDENT, BUSINESS OPERATIONS
Business Development
Ronald E. Avery,
Vice-President

Division Manager:
Timothy J. Newton,
Energy Management

Community Relations
John C. Dawson,
Manager

Electrical Operations
P. Donald Swoboda,
Vice-President

Division Managers:
John R. Carmichael,
Northern

Evan T. Davis,
Vancouver Island

H.D. Kenneth Epp,
Operations Engineering

W. Basil Gale,
Operations Administration

Donald J. McLennan,
South Interior

A. Wayne Morgan,
Lower Mainland

Gas Operations
Maurice A. Favell,
Vice-President

Division Managers:
William G. Bierlmeier,
Gas Supply and System Operation

Kenneth S. Henderson,
Gas Distribution

Carl Shalansky,
Gas Engineering

Railway Operations
Gerald I. Stevenson,
Manager

OFFICE OF THE EXECUTIVE VICE-PRESIDENT, FINANCE AND ADMINISTRATION
Finance
Division Managers:
David A. Harrison,
Comptroller

William W. Winnett,
Treasurer

General Corporate Services
Thomas A. Nordstrom,
Vice-President

Division Managers:
Jeffrey N. Holmes,
Properties

Christopher J. Hopkins,
Purchasing and Supply

Desmond G. McKillop,
General Services

Robert J. Steele,
Computer and Management Services

Internal Audit
S. Edwin Banning,
Manager

Personnel
Division Managers:
Andrei D. Danyliu,
Human Resource Programs

Richard H. Downey,
Personnel

C. Mark Leffler,
Labour Relations

Corporate Information

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Canada, V6Z 1Y3

Auditors
Price Waterhouse

Bankers
Canadian Imperial Bank of Commerce

Registrars and Transfer Agents
Securities issued by B.C. Hydro:

CANADIAN ISSUES:
Montreal Trust Company of Canada

UNITED STATES ISSUES:
Canadian Imperial Bank of Commerce
Trust Company, New York

Securities issued by the former British Columbia Electric Company Limited:
Montreal Trust Company

Securities issued by the former British Columbia Power Commission:
Montreal Trust Company of Canada